

2006 California Volunteer Reference Manual

Volunteer Income Tax Assistance

Tax Counseling for the Elderly

California Volunteers Make the Difference

Instructions for:

- ▶ Form FTB 540 2EZ
- ▶ Form FTB 540A
- ▶ Form FTB 540
- ▶ Form FTB Schedule CA
- ▶ Form FTB 3506



Prepared by: Franchise Tax Board

CRITICAL NUMBERS

PTIN

SITE NAME

PARTNER: _____ PHONE _____

STATE COORDINATOR: _____ PHONE _____

FRANCHISE TAX BOARD FIELD OFFICES

Los Angeles Field Office
300 S. Spring Street, Suite 5704
Los Angeles, CA 90013-1204

San Diego Field Office
7575 Metropolitan Drive, Suite 201
San Diego, CA 92108-4402

Oakland Field Office
1515 Clay Street, Suite 306
Oakland, CA 94612-1432

San Francisco Field Office
121 Spear Street, Suite 400
San Francisco, CA 94105-3685

Sacramento Field Office
3321 Power Inn Road, Suite 250
Sacramento, CA 95826-3389

Santa Ana Field Office
600 W. Santa Ana Blvd., Suite 300
Santa Ana, CA 92701-4532

VOLUNTEER HOTLINE (For use of Volunteers Only)..... ((****))

Public Assistance Numbers

From Within the United States, call..... 1-800-852-5711
From Outside the United States, call (not toll-free) 1-916-854-6500

Automated Toll-Free Phone Service

From Within the United States, call..... 1-800-338-0505
From Outside the United States, call (not toll-free)..... 1-916-854-6600

By Internet

Information available:..... www.ftb.ca.gov

- ▶ How to e-file
- ▶ Check the status of a refund
- ▶ Options for paying taxes
- ▶ Download forms & publications
- ▶ Have California forms mailed to you

NOTE: ((****)) = Indicates confidential and/or proprietary information.

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Introduction

Section

WHAT'S NEW FOR 2006

Standard Deduction Amounts Have Increased:

Single and married filing separately

* **\$3,410**

Married filing jointly, head of household, and qualifying widow(er)

* **\$6,820**

Exemption Credit Amounts Have Changed:

For dependents

* **\$285**

For personal, senior, and blind

* **\$91**

What's New

540 2EZ has an added line for reporting capital gains (Form 1099-DIV Box 2a) from a mutual fund, provided the reportable amount is the same for federal and state.

California has conformed to the federal student loan interest deduction provision.

Individual taxpayers may request that their refund be electronically deposited into more than one checking or savings account.

California does not conform to the part of the Federal Tax Increase and Reconciliation Act which increases the age of children from under 14 years to 18 years for elections made by parents reporting a child's interest and dividend income.

SB 1827 has been enacted into law and provides that beginning with the 2007 tax year, registered domestic partners are required to file California returns using the joint or separate filing status.

Teachers Retention Credit has been suspended for 2006 & 2007.


New Voluntary Contribution Fund has been added to the return:

* **CA Sea Otter Fund**

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Introduction Section

IMPORTANT DUE DATES

April 16, 2007	Last day to pay the 2006 amount your clients owe to avoid penalties and interest. See form FTB 3519 for more information. <i>If any of your clients are living or traveling outside the United States on April 15, 2006, the due dates for filing their return and paying their tax is different.</i>
October 15, 2007	Last day for your clients to file their 2006 return to avoid penalties and interest computed from the original due date of April 15, 2007.
April 16, 2007 June 15, 2007 September 17, 2007 January 15, 2007	<p>Due dates for 2007 estimated tax payments. Generally, your clients do not have to make estimated tax payments if their California withholding in each payment period is at least $\frac{1}{4}$ of their required annual payment. Also, they will not have to make estimated tax payments if they pay enough through withholding to keep the amount they owe with their return under \$200 (\$100 if married filing separately). However, if they do not pay enough tax either through withholding or by making estimated tax payments, they may have an underpayment penalty. See Form 540-ES instructions for more information.</p> <p> VITA/TCE training does not cover instructions on estimated tax payments.</p>

STATE AND FEDERAL DIFFERENCES

California does not tax:

- * Interest income earned from Savings bonds, U.S. Treasury bills, or any other bonds of the U.S. and U.S. territories.
- * State income tax refunds.
- * Unemployment compensation and paid family medical leave.
- * Social security benefits.
- * Tier 1 and tier 2 railroad retirement benefits.
- * California lottery winnings.

California does tax

- * Foreign earned income.
- * Interest income from bonds issued by a state other than California.
- * Interest income from obligations of the District of Columbia issued after December 27, 1973.
- * Interest income from municipal bonds issued by a county, city, town, or other local government unit in a state other than California.
- * Foreign Social Security income.

California law differs from federal law with regard to certain itemized deductions.

California does not have the earned income credit.

California does not allow some of the federal adjustments to gross income.

California allows contributions to many different funds.

California has many tax credits, including:

- * Nonrefundable Renter's Credit.
- * Child and Dependent Care Expense Credit.
- * Credit For Joint Custody Head of Household.
- * Credit For Dependent Parent.
- * Credit For Senior Head of Household.
- * Credit for Child Adoption Costs.
- * Solar Energy Credit.
- * As well as many other special credits. Refer to the Form 540 section of this manual for additional credits.



TaxWise Tip:

Many of these credits and adjustments will not automatically enter on the state return. If your client qualifies for any of the above credits, or requires an adjustment to federal AGI, you must double check the credit or adjustment amount on the state form.

Introduction Section

ADDITIONAL INFORMATION

Scope of VITA/TCE

The VITA/TCE volunteer program provides assistance to individuals with limited income who need help in completing simple federal and state income tax returns. Assistance is limited to full-year residents because nonresident and part year resident returns can be complex. Therefore, this manual does not include instructions for the California long or short Form 540NR.

Assistance is generally available from January 15th through April 15th. In all cases, assistance must be provided free of charge.

General Filing Requirements

If in doubt as to whether a tax return is required, have your clients file a return. By filing a return, your clients may avoid penalties for failure to file.

If any of your clients can be claimed as a dependent on someone else's return, they must file a return if gross income from all sources is greater than the standard deduction. Use the "Standard Deduction Worksheet for Dependents" to figure their standard deduction.

Remember, if your clients do not have a filing requirement, they should still file a tax return to claim a refund if:

- * California state income tax was withheld from their pay.
- * They made estimated tax payments.
- * They paid out of pocket child care expenses.

FILING REQUIREMENTS FOR MOST CLIENTS

Read down the first column to find your clients' filing status at the end of 2006. Read across to find the ages of your clients at the end of 2006 and the number of dependents they can claim for 2006. A return must be filed if either the California gross income or the California adjusted gross income was more than the amount shown for their filing status, age, and number of dependents.

On 12/31/2006 my clients' filing status was:	and my clients' age was:	California Gross Income			California Adjusted Gross Income		
		Number of dependents			Number of dependents		
		0	1	2 or more	0	1	2 or more
Single or Head of household	Under 65	13,713	23,213	30,338	10,970	20,470	27,595
	*65 or older	18,263	25,388	31,088	15,520	22,645	28,345
Married filing jointly or Married filing separately	Under 65 (both spouses)	27,426	36,926	44,051	21,940	31,440	38,565
	*65 or older (1 spouse)	31,976	39,101	44,801	26,490	33,615	39,315
	*65 or older (both spouses)	36,526	43,651	49,351	31,040	38,165	43,865
Qualifying widow(er)	Under 65		23,213	30,338		20,470	27,595
	*65 or older		25,388	31,088		22,645	28,345
Dependent of another person. (Any filing status)	Any age	More than your clients' standard deduction					

California Gross income means all income your clients received in the form of money, goods, property, and services that are not exempt from tax. Gross income does not include any adjustments or deductions.

California Adjusted gross income is your clients' federal adjusted gross income from all sources reduced or increased by all California income adjustments.



* If your clients' 65th birthday is on January 1, 2007, they are considered to be age 65 on December 31, 2006.

Introduction Section

CHILDREN UNDER 14 WITH MORE THAN \$1,700 OF INVESTMENT INCOME

State and federal rules differ for children under age 18 who received more than \$1,700 of investment income in 2006. California does **not** conform to the federal change for age. California does conform to the increased income amounts. The taxpayer must complete Form 540 (or 540NR) and form FTB 3800, Tax Computation for Children with Investment Income, or form FTB 3803, Parents' Election to Report Child's Interest and Dividends.

DECEASED TAXPAYERS

A final return must be filed for a person who died in 2006 if a return would normally be required.

If your client is a surviving spouse and no administrator or executor has been appointed, they may file a joint return as long as they did not remarry during 2006. Write "surviving spouse" next to their signature on the return.

If your client is not the surviving spouse, and claiming a refund due to a deceased taxpayer, a copy of federal Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, or a copy of the death certificate must be attached to the return.

ROUNDING

Please round cents to the nearest whole dollar. To do so, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. If you have to add two or more sums to figure the amount to enter on a line, include cents when adding and round only the total.

CALIFORNIA INCOME TAX RETURNS

There are five state income tax forms for California:

- * 540 2EZ - for full-year residents
- * 540A - for full-year residents
- * 540 - for full-year residents
- * 540NR – *Long Form* for part-year residents and nonresidents
- * 540NR – *Short Form* for part-year residents and nonresidents

This manual covers instructions for:

- * Form 540 2EZ
- * Form 540A
- * Form 540

CALIFORNIA TAX FORMS ON THE INTERNET

If you have Internet access, you may download, view, and print California income tax forms and publications. The internet address is:

www.ftb.ca.gov

FILLING IN THE RETURN

Use a black or blue ballpoint pen to fill in the copy of the return to be sent to the Franchise Tax Board (FTB). The scanning machines may not be able to read red, other colored ink, or pencil.

Print all names and words in CAPITAL LETTERS.

Enter your clients' social security number at the top of the form. These numbers are no longer printed on the mailing labels.

Print numbers inside boxes. Be sure to line up dollar amounts.

Round cents to the nearest whole dollar on the return and schedules.

If you do not have an entry for a line, leave it blank. Do not enter a dash. Also do not enter a zero unless the instructions for a specific line tell you to enter zero.

See the example below for filling in the name.

C	H	E	R	Y	L				
---	---	---	---	---	---	--	--	--	--

If any of your clients' names or addresses are too long to fit in the boxes, ignore the boxes and fit the information in the space provided. Example: Harold Ziggzephyrstone would enter his last name as follows:

Z	I	G	G	Z	E	P	H	Y	R	S	T	O	N	E
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---



Remember to write your clients' social security number on the return as indicated in Step 1a.

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Introduction Section

WHICH RETURN TO USE - THE 540-2EZ, 540A OR 540?

	540-2EZ	540A	540
Filing Status	Single, married filing jointly, head of household, or qualifying widow(er)	Any filing status	Any filing status
Dependents	0-3 allowed	All dependents the clients are entitled to claim	All dependents the clients are entitled to claim
Sources of Income	Income only from: <ul style="list-style-type: none"> * Wages, salaries, tips * Taxable scholarship or fellowship grants * Unemployment compensation * Interest * U.S. Social Security * Railroad Retirement * Pensions * Dividends * Mutual fund capital gains 	Income only from: <ul style="list-style-type: none"> * Wages, salaries, tips * Taxable scholarship or fellowship grants * Interest and dividends * Unemployment compensation * Social security benefits * Tier 1 and Tier 2 railroad retirement benefits * Fully and partially taxable IRA distributions, pensions, or annuities * Alimony 	All sources of income
Amount of Income	Taxable income of \$100,000 or less if single or head of household. \$200,000 or less if married filing jointly or qualifying widow(er). <i>If your client can be claimed as a dependent by another taxpayer, see instructions.</i>	Any amount of income	Any amount of income
Adjustment to Income	None	Allowed if the adjustments are the same as the federal adjustments to income	All adjustments to income
Standard Deduction	Allowed (Included in tax table calculation)	Allowed	Allowed
Itemized Deductions	None	Allowed if the same as federal itemized deductions (except for state, local, and foreign taxes paid)	All itemized deductions
Payments	Withholding shown on Forms W-2	<ul style="list-style-type: none"> * Withholding shown on Forms W-2, W-2G, and 1099-R * Estimated tax payments * Payments made with extension voucher * Excess State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPI) 	<ul style="list-style-type: none"> * Withholding shown on Form(s) W-2, W-2G, 1099, 592-B, 593-B. * Estimated tax payments * Payments made with extension voucher * Excess State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPI)
Tax Credits	Personal, dependent and senior exemptions Nonrefundable Renters Credit	All exemption credits Nonrefundable Renters Credit Child and Dependent Care Expenses Credit	All tax credits

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General Information Section

The General Information Section covers common rules that apply to two or more of the California tax forms. Specific information can be found in the individual form sections.

All of the information in this section appears on two or more of the tax forms presented in this manual.

NAME AND ADDRESS

If there is a label on your clients' booklet, always use it, BUT:

- * Complete the entire tax form, then check all of your math and line amounts before you remove the label from the front of your clients' booklet.
- * Make sure the information is correct and complete on the label. If you need to make any changes, draw a line in ink through the incorrect information and clearly print the new information.

If there is no label, print all of the required information on the appropriate lines. Refer to Filling in the Return on page 9, for additional information.

If your clients have multiple last names, use the last name listed on their social security card.

When your clients are filing married filing jointly or married filing separately, always enter both social security numbers.

Postal regulation requires using PMB with your clients' mailbox number if they leased the box from a private business rather than the United States Postal Service. If a private mailbox was used, enter your clients' box number in the field labeled PMB no.



TaxWise Tip:
Apartment or room numbers must be entered separately on the state return.
(Form 540, page 1)

SOCIAL SECURITY NUMBERS

Enter your clients' social security number in the spaces provided.

If a joint return is filed, show the social security numbers in the same order that the names are shown.



If your clients do not have a social security number because they are nonresidents or resident aliens for federal tax purposes, and the IRS issued your clients an IRS Individual Taxpayer Identification Number (ITIN), enter the ITIN in the spaces provided for the social security number.

FILING STATUS

Your clients' filing status for California must be the same as the filing status used on the federal return.

Exception: Married clients who file a joint federal income tax return may file separate state returns if either spouse was:

- * An active member of the United States armed forces (or any auxiliary military branch) during 2006, or
- * A nonresident for the entire year and had no income from California sources during 2006.

Since income splitting rules can be complex and are outside the scope of the VITA/TCE volunteer program, refer these clients to Franchise Tax Board or, if military, to their Staff Judge Advocate's Office.

Completely fill in the circle for the filing status that applies to your clients.

General Information

CLAIMED AS A DEPENDENT

Completely fill in the circle on line 6 if your clients or their spouse can be claimed as dependents on someone else's return.

Your clients (or their spouses if married) cannot claim a personal exemption if they can be claimed as a dependent on someone else's return. For example, if parents can claim their daughter, she cannot claim a personal exemption for herself on her return, even if her parents choose **not** to claim her as a dependent.



If you filled in the circle on line 6 of your clients' return, you must fill out the "California Standard Deduction Worksheet for Dependents" on page 22.

EXEMPTIONS

PERSONAL

You will find the exemption credits in Step 3 of the Form 540A & Form 540. The exemption credits for Form 540 2EZ are built into the tax tables.

If you **did not** fill in the circle on line 6 and the filing status is:

Single, enter..... **1**
Married filing jointly, enter **2**
Married filing separately, enter..... **1**
Head of household, enter..... **1**
Qualifying widow(er), enter **2**

Multiply this number by \$91 and enter the amount on line 7 of Forms 540A or 540.

If you **did** fill in the circle on line 6 and the filing status is:

- * Single, married filing separately, head of household, or married filing jointly, and both your client and their spouse can be claimed as a dependent, **enter 0.**
- * Married filing jointly and only your client or their spouse can be claimed as a dependent, **enter 1.**

Multiply this number by \$91 and enter the amount on line 7 of Forms 540A or 540.

General Information

BLIND

Your clients, or their spouses if married, can claim an additional personal exemption credit if they are visually impaired. If this exemption is being claimed for the first time, a doctor's statement verifying the visual impairment must be attached to the **back** of the return. Visually impaired means that vision is no better than 20/200 while wearing glasses or contact lenses, or that the field of vision is not more than 20 degrees. Enter 1 if your clients qualify or 2 if both the client and their spouse qualify. Multiply this number by \$91 and enter the amount on line 8 of Forms 540A or 540.



This credit cannot be taken if your client can be claimed as a dependent on someone else's return.

SENIOR

An additional personal exemption credit can be claimed by your client, or their spouse if married, if they are 65 years of age or older by December 31, 2006. Enter 1 if your clients qualify or 2 if both your client and their spouse are 65 or older. Multiply this number by \$91 and enter the amount on line 9 of Forms 540A and 540.



TaxWise Tip:

You must check the "blind box" located on the main information screen and/or enter your clients' birth date on the main information screen in order for the blind and senior exemption credits to automatically enter on the state return.



If your clients' 65th birthday is on January 1st, 2007, they are considered to be age 65 on December 31, 2006.

If your clients can be claimed as a dependent on someone else's return, they may not claim this credit.

DEPENDENTS

An exemption credit is allowed for each dependent. Write the name and relationship of each dependent in the space provided.

The individuals listed as dependents on your clients' state return must be the same people listed on their federal return.

Count the number of dependents listed and enter the total in the appropriate boxes on the forms. Multiply the number of dependents by \$285 and enter the amount on line 10 of Forms 540A or 540.



The dependent exemption credit on the Form 540 2EZ is included in the 2EZ tax tables.

General Information

INCOME ADJUSTMENTS

The income adjustments presented here are the adjustments available on the California Form 540A and some of the adjustments available for the Form 540. Refer to the Form 540 section, page 115 for additional adjustments available.

STATE INCOME TAX REFUND ADJUSTMENT

California does not tax state income tax refunds. Enter the amount of any state income tax refund included on Form 1040, line 10. If your clients filed Form 1040A or Form 1040EZ, enter -0- on this line.

UNEMPLOYMENT COMPENSATION ADJUSTMENT

California does not tax unemployment compensation. Enter the amount of unemployment compensation if included on:

- * Form 1040EZ, line 3
- * Form 1040A, line 13
- * Form 1040, line 19.

SOCIAL SECURITY BENEFITS, TIER 1 AND TIER 2 RAILROAD RETIREMENT BENEFIT ADJUSTMENTS

California does not tax:

- * Social security benefits and equivalent tier 1 railroad retirement benefits reported on Form 1040A, line 14b or Form 1040, line 20b.
- * Tier 2 railroad retirement benefits reported on Form 1040A, line 12b or Form 1040, line 16b.

Social Security and equivalent tier 1 railroad retirement benefit adjustments can be made on Form 540A, line 13c or on the Schedule CA (540), line 20.

Tier 2 railroad retirement benefit adjustments can be made on Form 540A, line 13f or on the Schedule CA (540), line 16.



For more information on tier 2 railroad retirement benefits, see page 22, California pension and annuity adjustment.

Enter the total of any of these amounts shown on your clients' federal return.

If your clients filed Form 1040EZ, enter -0- on this line.



TaxWise Tip:

If your client has a 1099R with Tier 1 or Tier 2 income, make sure you "X" the "Railroad" box when entering the Form 1099R to indicate the taxable income from this 1099R qualifies for subtraction on the California Schedule CA.

CALIFORNIA NONTAXABLE INTEREST OR DIVIDEND INCOME ADJUSTMENT

California does not tax interest earned from:

- * United States savings bonds
- * United States treasury bills
- * Any other bonds or obligations of the United States, U.S. territories, and government agency obligations specifically exempted by federal law

Add up the amount of these types of interest that are included on your clients' Form 1040EZ, line 2; Form 1040A, line 8a; or Form 1040, line 8a, and enter this amount on your clients' Form 540A, line 13d; or Schedule CA (540), line 8, column B.

Interest from municipal or state bonds from a state other than California:

This type of interest is taxed by California, and must be reported on Form 540 (Schedule CA). If you identified this type of interest income as tax exempt on your clients federal return, you must add it back in on their state return. You do this by entering the amount of interest figured as exempt for federal purposes on line 8, column C of the Schedule CA (540).

Exempt-interest dividends from mutual funds:

Certain mutual funds are qualified to pay "exempt-interest dividends". If at least 50% of their assets consist of tax-exempt government obligations, and/or in California or its municipal obligations, that amount of dividend is exempt from California tax. The portion of the dividends that is tax exempt will be shown on your clients' annual statement. Enter the California exempt-interest amount that exceeds the federal exempt-interest amount on Form 540A, line 13d; or Schedule CA (540), line 8, column B.



TaxWise Tip:

*On the federal Schedule B, interest statement, enter a "+" in the state adjustment column, for interest that needs to be **added** to the state return. Place a "-" in the column for interest that is non-taxable to the state and needs to be subtracted on the state return. TaxWise will transfer this addition/subtraction amount on the California Schedule CA.*

CALIFORNIA IRA DISTRIBUTIONS

Although the method of taxing income from IRA distributions is generally the same for California and federal purposes, there may be differences in the taxable amount depending on when your clients' contributions were made.

If your clients or their spouse made IRA contributions in 1975, or 1982 through 1986, you may need to make an adjustment, because these are the years the state of California differed from the federal deduction rules.

An IRA distribution is fully taxable if your client took the full deduction at the time of the contribution. If the IRA contributions were partially or fully nondeductible, then the nondeductible contributions are not taxed when your client begins making distributions.

Since California law was different from federal law for certain prior years regarding how IRA contributions were deducted, your clients may need to complete the "IRA Adjustment Worksheet" on page 20 to determine their California basis.

General Information

1975:

California law was different from federal law, and did not allow an IRA deduction.

1982 through 1986

California law was different from federal law. The maximum federal deduction for an individual was \$2,000 and was available to active participants in qualified or government retirement plans and to persons who contributed to tax-sheltered annuities. For California, the maximum deduction was the lesser of \$1,500 or 15% of earned income with an additional deduction for a "non-working spouse", up to an overall limit of \$1,750. An IRA deduction was not allowed if an individual was an active participant in a qualified or government retirement plan or contributed to a tax-sheltered annuity.

1987 through present:

California law conforms to the federal law. Therefore if your clients made an IRA contribution during those years, no adjustment is necessary.

California residents who were formerly nonresidents:

California law changed for taxable years beginning on or after January 1, 2002.

Under the prior law, when your client became a California resident, they received a stepped-up basis in their IRA equal to their annual contributions made while a nonresident, plus the earnings on their IRA while a nonresident. They were allowed to carry over this IRA basis until it was fully recovered. But now, under the new law, they no longer have this stepped-up basis.

The law treats a former nonresident as if they were a resident for all prior years for all items of deferred income, which includes IRAs. Therefore, a former nonresident will be allowed a basis only for contributions which would not have been allowed under California law had the taxpayer been a California resident. These amounts would only be part of the contributions made prior to 1987.

If your client became a California resident prior to 2002 and they have an unrecovered stepped-up basis they were carrying into 2002, they must restate their IRA basis using the new law.



*For more information, see FTB
Pub. 1005, Pension and Annuity
Guidelines*

Below is an example of how to figure a California Basis (Part B of the IRA Adjustment Worksheet)

Part B - California Basis

(If your clients have already computed their California basis as of 12/31/03, skip to Part C.)

1. Enter total California basis as determined from the information above or from your clients' records.
2. Enter your clients' California basis recovered in prior years.
3. California basis as of 12/31/06. Subtract line 2 from line 1.

1. 900
2. 0
3. 900

This is the first yr money was withdrawn from this IRA

Part C - Form 540A, line 13e; or Schedule CA (540), line 15, Adjustment and Remaining California Basis

1. Enter your clients' taxable distribution from their Form 1040A, line 10b; or Form 1040, line 15b.
2. Enter your clients' California basis as of 12/31/06 (line 3 from above).
3. Enter the smaller of line 1 or line 2. Enter this amount on Form 540A, line 13e; or Schedule CA (540), line 15b.
4. Remaining California basis as of 12/31/07. Subtract line 3 from line 2.

1. 500
2. 900
3. 500
4. 400

Total amount that was withdrawn during 2006.

\$400 is the California Basis for next year.

General Information

USE THIS IRA ADJUSTMENT WORKSHEET TO CALCULATE YOUR CLIENTS' IRA CALIFORNIA BASIS

IRA ADJUSTMENT WORKSHEET

Part A - Contributions and Deductions by Year

Your clients must be able to provide information to complete the chart in order for you to determine whether an adjustment is necessary. If your clients do not have this necessary information, no adjustment can be made.

Year	Contributions	Federal Deductions	State Deductions
1975			
1982			
1983			
1984			
1985			
1986			
Total			
	(A)	(B)	(C)

If your clients can provide the necessary information, subtract total California Deductions (C) from total Federal Deductions (B). This amount is your clients' California basis. If there is no difference between B and C, there is no adjustment on the Form 540A, line 13e; or Schedule CA (540), line 15.

Part B - California Basis

(If your clients have already computed their California basis as of 12/31/06, skip to Part C.)

1. Enter total California basis as determined from the information above
or from your clients' records. 1. _____
2. Enter your clients' California basis recovered in prior years. 2. _____
3. California basis as of 12/31/06. Subtract line 2 from line 1. 3. _____

Part C – Form 540A, line 13e; or Schedule CA (540), line 15, Adjustment and Remaining California Basis

1. Enter your clients' taxable distribution from their Form 1040A, line 10b; or
Form 1040, line 15b. 1. _____
2. Enter your clients' California basis as of 12/31/06 (line 3 from above). 2. _____
3. Enter the smaller of line 1 or line 2. Enter this amount on Form 540A, line 13e;
or Schedule CA (540), line 15. 3. _____
4. Remaining California basis as of 12/31/07. Subtract line 3 from line 2. 4. _____

CALIFORNIA PENSION AND ANNUITIES ADJUSTMENT

California and federal laws generally treat pension and annuity income the same. However, if any of the following apply to your clients, you may need to make a California adjustment:

- * If they received a federal Form RRB 1099-R for tier 2 railroad retirement benefits and you included all or part of these benefits as taxable income on their federal return.
- * If they began receiving a retirement annuity between July 1, 1986 and January 1, 1987 and elected to use the three-year rule for California purposes.

Any pension adjustment can be made on Form 540A, line 13f or Schedule CA (540), line 16.

For more information, see the Form 540 A Section, or the Form 540 section.

STANDARD AND ITEMIZED DEDUCTIONS

Your clients must decide whether to itemize their deductions or to take the state standard deduction. Use the method that gives your clients the greater deduction. Your clients may itemize for the state even if they did not itemize for federal.

Clients who are over age 65 and who took the federal standard deduction may receive a greater state deduction if they itemize.

If your clients are married and filing separate returns, the client and their spouse must either both itemize their deductions or both take the standard deduction.

General Information

THE STANDARD DEDUCTION

If your clients took the standard deduction on their federal return, in most cases the state standard deduction will be greater than the allowable itemized deductions.

Clients who can be claimed as a dependent on someone else's return must use the "California Standard Deduction Worksheet for Dependents" on this page.

If your clients **did not** fill in the circle on line 6:

- * Enter **\$3,410** on Form 540A, line 15; or Form 540, line 18 if the filing status is single; or married filing separately.
- * Enter **\$6,820** on Form 540A, line 15; or Form 540, line 18 if the filing status is married filing jointly; head of household; or qualifying widow(er).

Line 6 - If your clients filled in the circle on line 6, indicating that your clients or their spouse **CAN** be claimed as a dependent on someone else's return, complete the "California Standard Deduction Worksheet for Dependents" below.

California Standard Deduction Worksheet for Dependents

1. Enter your clients' total wages, salaries, and tips from all of their Forms W-2, box 16. (You may also refer to the federal Form 1040EZ, Line 1; form 1040A, line 7; or Form 1040, line 7). 1. _____
2. 2. \$250.00
3. Add line 1 and line 2. Enter the total here. 3. _____
4. Minimum standard deduction amount 4. \$800.00
5. Compare the amounts on line 3 and line 4. Enter the **larger** of the two amounts here 5. _____
6. Enter the amount shown below for your clients' filing status..... 6. _____
 - * Single or married filing separately, enter **\$3,410**.
 - * Married filing jointly, head of household, or qualifying widow(er), enter **\$6,820**.
7. **Standard Deduction.** Compare the amounts on line 5 and line 6. Enter the **smaller** of the two amounts here and on Form 540A, line 15; or Form 540, line 18 7. _____

ITEMIZED DEDUCTIONS

Your clients may itemize for the state even if they did not itemize for federal.

If your clients wish to claim itemized deductions on their state return, the amount on their federal Schedule A must be adjusted. If your clients are filing Form 540, you must complete and attach Schedule CA (540) Part II – Adjustments to Federal Itemized Deductions. Compute state itemized deductions using the “California Itemized Deductions Worksheet” below.

Clients age 65 or older – If additional standard deduction amounts were claimed on the federal return because your clients or their spouse are age 65 or older, then your clients may benefit from itemizing on their state returns even if they took the federal standard deduction.

To itemize for just the state, complete a Form 1040 Schedule A following federal rules, then complete the “California Itemized Deductions Worksheet” or CA 540, Part II, Adjustments to Federal Itemized Deductions.



Do not attach the federal Schedule A to your clients' return.

California Itemized Deductions Worksheet

1. Enter the amount of itemized deductions from federal Schedule A, line 28 Itemized Deductions 1. _____
2. Enter the amount from federal Schedule A, line 5, **AND** only the portion relating to foreign income taxes from line 8. Be sure to include any amount deducted for State Disability Insurance (SDI) 2. _____
3. Subtract line 2 from line 1. This amount is your clients' total **Itemized Deductions** for California 3. _____
4. Enter the **Standard Deduction** for your clients' filing status 4. _____
 - * Single or married filing separately, enter **\$3,410**
 - * Married filing jointly, head of household, or qualifying widow(er), enter **\$6,820**.

If your clients can be claimed as a dependent on someone else's return, complete the "Standard Deduction Worksheet for Dependents." Enter the amount from line 5 of that worksheet on line 4 of this worksheet.

5. Compare the amounts on line 3 and line 4 above. Enter the **larger** of the two amounts here and on the Form 540A, line 15; or Form 540, line 18 5. _____

General Information

TAX AND CREDITS

TAX

Determine your clients' tax by using the tax table in your clients' booklet or in this manual.

Follow the instructions at the top of the table. Be sure and use the correct filing status and TAXABLE INCOME from your clients' Form 540A, line 16; or Form 540, line 19.

First Column

- * 1-Single
- * 3-Married Filing Separately

Second Column

- * 2-Married Filing Jointly
- * 5-Qualifying Widow(er)

Third Column

- * 4-Head of Household



Tax is computed differently when using the Form 540 2EZ. This will be explained in detail in the Form 540 2EZ section.

USE TAX

Use tax has been effect in California since July 1, 1935. It applies to purchases from out-of-state sellers and is similar to the sales tax paid on purchases made in California.

In general, your client must pay California use tax on purchases made from out of state (for example, by telephone, over the internet, by mail, or in person) if:

- * the seller did not collect California sales or use tax, and
- * your client used, gave away, stored or consumed the item in this state.

If your client owes use tax, but chooses not to report it on their income tax return, they must report and pay the tax to the State Board of Equalization. For more information, they can contact the State Board of Equalization at www.boe.ca.gov or call (800) 400-7115.

Complete the worksheet below to figure your clients' use tax.

Use Tax Worksheet

1. Enter your clients' total purchases subject to use tax.
 2. Enter the applicable sales and use tax rate from below
 3. Multiply line 1 by the tax rate on line 2
 4. Enter any sales or use tax your clients paid to another state for purchases included on line 1*
 5. Subtract line 4 from line 3
- Enter line 5 on Form 540A, line 37, or Form 540, line 51.

**This is a credit for tax paid to other states. Your clients cannot claim a credit greater than the amount of tax that would have been due if the purchase had been made in California. For example, if your clients paid \$8.00 in sales tax to another state for a purchase, and they would have paid \$6.00 in California, they can claim a credit of only \$6.00 for that purchase.*

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General Information

County	Rate
Alameda**	8.75%
Alpine	7.25%
Amador	7.25%
Butte	7.25%
Calaveras	7.25%
Colusa	7.25%
Contra Costa	8.25%
Del Norte	7.25%
El Dorado*	7.25%
Fresno*	7.975%
Glenn	7.25%
Humboldt*	7.25%
Imperial*	7.75%
Inyo	7.75%
Kern	7.25%
Kings	7.25%
Lake*	7.25%
Lassen	7.25%
Los Angeles*	8.25%
Madera	7.75%
Marin	7.25%
Mariposa	7.75%
Mendocino*	7.25%
Merced	7.25%
Modoc	7.25%
Mono	7.25%
Monterey	7.25%
Napa	7.75%
Nevada*	7.375%

County	Rate
Orange	7.75%
Placer	7.25%
Plumas	7.25%
Riverside	7.75%
Sacramento	7.75%
San Benito	7.25%
San Bernardino	7.75%
San Diego	7.75%
San Francisco	8.50%
San Joaquin	7.75%
San Luis Obispo	7.25%
San Mateo	8.25%
Santa Barbara	7.75%
Santa Clara	8.25%
Santa Cruz*	8.00%
Shasta	7.25%
Sierra	7.25%
Siskiyou	7.25%
Solano	7.375%
Sonoma*	7.75%
Stanislaus	7.375%
Sutter	7.25%
Tehama	7.25%
Trinity	7.25%
Tulare	7.25%
Tuolumne	7.25%
Ventura	7.25%
Yolo*	7.25%
Yuba	7.25%

*Many cities and towns in California impose a district tax, which results in a higher sales and use tax than in other parts of the county. If your clients are reporting an item that was purchased for use in any of the following cities or towns, please use the appropriate tax rates for those areas. The following tax rates apply within the city limits or the town limits of the listed community.

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General Information

County	City or town with a special tax district	Effective Date and Tax Rate
Contra Costa	Richmond	8.75%
El Dorado	Placerville and So. Lake Tahoe	7.50% and 7.75%
Fresno	Clovis	8.275%
Humboldt	Trinidad	8.25%
Imperial	Calexico	(4/1/2006) 7.75%
Lake	Clearlake and Lakeport	7.75% and 7.75%
Los Angeles	Avalon	8.75%
Marin	San Rafael	(4/1/2006) 8.25%
Mendocino	Point Arena and Fort Bragg	7.75% and 7.75%
Mendocino	Willits and Ukiah	7.75% and 7.75%
Merced	Los Banos and Merced	7.75% and (4/1/2006) 7.75%
Monterey	Salinas and Sand City	7.75% and 7.75%
Nevada	Truckee	7.875%
Orange	Laguna Beach	(7/1/2006) 8.25%
San Benito	San Juan Bautista	8.00%
San Bernardino	Montclair	8.00%
San Diego	El Cajon and National City	8.25% and (10/1/2006) 8.75%
San Joaquin	Stockton	8.00%
Santa Cruz	Capitola, Santa Cruz and Scotts Valley	8.25%, 8.25% and (4/1/2006) 8.50%
Sonoma	Sebastopol and Santa Rosa	8.00%
Tulare	Dinuba, Farmersville, Porterville, Tulare and Visalia	(4/1/2006) 8.00%, 7.75%, 7.75%, 7.75%, and 7.50%
Tuolumne	Sonora	7.75%
Yolo	Davis, West Sacramento and Woodland	(10/1/2006) 7.75%

CALIFORNIA INCOME TAX WITHHELD

Enter total California income tax withheld listed in box 17 on Forms W-2. If a joint return is filed, be sure to include the amount withheld from the spouse's wages. If filing separate returns, you would claim half of the **total** withholding from **both** spouses on each return.

Also include the amounts from Forms W-2G, box 14 and 1099-R, box 10. If your clients received Forms 1099 showing California income tax withheld on dividends and interest income, include these amounts.

Do not include any amount of local income tax withheld.

Advise your clients who did not receive Forms W-2 by January 31, 2006 to contact their employers. Only an employer can give out or correct Forms W-2.

Clients who cannot get a copy of Forms W-2 must complete Form FTB 3525, "Substitute for Form W-2, Wage and Tax Statement, or 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc".

If your clients forget to send their Forms W-2 with their return, advise them not to send them separately. It is best to wait until Franchise Tax Board contacts your clients to request them.

2006 CALIFORNIA ESTIMATED TAX AND PAYMENT WITH FORM FTB 3519

Enter total of any:

- * California estimated tax payments your clients made for 2006 using Form 540-ES.
- * Overpayment from your clients' 2005 California income tax return that they applied to their 2006 estimated tax.
- * Any payment with form FTB 3519, Payment Voucher for Automatic Extension for Individuals, which your clients may have made if they are filing after April 16, 2006. Amount claimed by your clients who, with their spouse, once paid joint estimated tax but are now filing a separate return. In such a case, either the client or the spouse may claim the entire amount paid or they may each claim a part of it. Provide a statement signed by the client and their spouse explaining how they want their payments divided. Be sure to show both social security numbers on the separate returns.

NONREFUNDABLE RENTER'S CREDIT

Is your clients' income on Form 540A, line 14 or Form 540, line 17:

- * \$32,272 or less if single or married filing separately? or
- * \$64,544 or less if married filing jointly, head of household, or qualifying widow(er)?

AND

Did your clients pay rent on their principal residence located in California for at least 6 months in 2006?

YES: Complete the "Nonrefundable Renter's Credit Worksheet" on page 29 to see if they qualify.

NO: They do not qualify for this credit.

Your clients do not qualify for the nonrefundable renter's credit if, for more than half of the year, they rented property that was exempt from property taxes. Exempt property includes most government-owned buildings, church-owned parsonages, college dormitories, and military barracks. However, if your clients or your clients' landlord paid possessory interest taxes for the rented property, then your clients may claim the nonrefundable renter's credit.

General Information

Your clients do not qualify for the nonrefundable renter's credit if they or their spouse received a homeowner's property tax exemption at any time during the year. However, if your clients lived apart from their spouse for the entire year and your clients' spouse received a homeowners' property tax exemption for a separate residence, then your clients may claim the nonrefundable renter's credit if they otherwise qualify.

If your client and their spouse file separate returns, live in the same rental property, and both qualify for the nonrefundable renter's credit, they may each claim half of the amount, \$60, or one of them may claim the whole amount, \$120. If your clients and their spouse maintained separate residences, they may each claim only half of the amount, \$60.



TaxWise Tip:

TaxWise does not automatically enter the non-refundable renters credit. If your clients qualify, you must remember to enter the credit on the state return.

DO NOT MAIL THIS WORKSHEET TO FTB

Nonrefundable Renters Credit Worksheet

1. Was your client a resident of California for the entire year in 2006?
 YES Go to the next question.
 NO Stop here. File Form 540NR, California Nonresident or Part-Year Resident Income Tax Return.
2. Is your clients' California adjusted gross income \$32,272 or less if single or married filing separate; or \$64,544 or less if married filing jointly, head of household, or qualifying widow(er)?
 YES Go to the next question.
 NO Stop here. Your client does not qualify for this credit.
3. Did your client pay rent, for at least half of 2006, on property (including a mobile home that your client may have owned on rented land) in California, which was your clients' principal residence?
 NO Stop here. Your client does not qualify for this credit.
 YES Go to the next question.
4. Could your client be claimed as a dependent by a parent, foster parent, legal guardian or any other person in 2006?
 NO Go to question 6.
 YES Go to question 5.
5. For more than half the year, did your client live in the home of the person who can claim them as a dependent in 2006?
 NO Go to question 6.
 YES Stop here. Your client does not qualify for this credit.
6. Was the property your client rented exempt from property tax in 2006?
 NO Go to the next question.
 YES Stop here. Your client does not qualify for this credit.
7. Did your client claim the homeowner's property tax exemption anytime during 2006?
 NO Go to question 8.
 YES Stop here. Your client does not qualify for this credit.
8. Was your client single in 2006?
 YES Go to question 11.
 NO Go to question 9.
9. Did your client's spouse claim the homeowner's property tax exemption anytime during 2006?
 NO Go to question 11.
 YES Go to question 10.
10. Did your client and your clients' spouse maintain separate residences for the entire year in 2006?
 YES Go to question 11.
 NO Stop here. Your client does not qualify for this credit.
11. If your client is:
 Single or married filing separate, enter \$60 on Form 540-2EZ, line 13; Form 540A, line 19; or Form 540, line 31.
 If your clients are married filing jointly, head of household, or qualifying widow(er) enter \$120 on the lines mentioned above.
12. Fill in the street address(es) of the residence(s) your clients rented in California during 2006, which qualified them for this credit. Do not list post office boxes.

Street Address:	City, State and Zip Code:	Dates Rented in 2006 (from ____ to ____)

13. List the name(s), address(es) and telephone number(s) of your clients' landlord(s) or the person(s) to whom your clients paid rent for the residence(s) listed above.

Name:	Street Address	City, State, and Zip Code:	Phone Number:

General Information

EXCESS CALIFORNIA SDI OR VPDI WITHHELD

Your clients may claim a credit for excess California State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPDI) only if all the following conditions are met:

- * A client had **two or more** employers in 2006.
- * That client received more than \$79,418 in combined wages during 2006 from these employers, and
- * The amounts of SDI (or VPDI) withheld appear on the Forms W-2.

If your clients had only **one** employer and the SDI withheld exceeds the maximum amount of \$635.34 or exceeds .08% of your clients' gross wages, they cannot take the credit. Your clients' employer should refund the difference.

Use the excess SDI (or VPDI) worksheet below to figure your client's credit.



TaxWise Tip:

On Form W-2, enter your clients' SDI amount in box 19 (Local tax) and the letters "SDI" in box 20 (Local name). This will cause TaxWise to enter the SDI amount correctly on your clients' state return.

Also, "SDI" or "VPDI" and the amount must be entered in the box located at the extreme bottom of the W-2 input form.

EXCESS CALIFORNIA SDI OR VPDI WORKSHEET

1. Add amounts of SDI (or VPDI) withheld on your client's Form(s) W-2
Enter the total here..... 1. _____
2. 2006 SDI (or VPDI) limit..... 2. \$635.34
3. Subtract line 2 from line 1. This is your client's excess SDI (or VPDI) withheld.
Enter the result here and on Form 540A, line 27; or
Form 540 line 41 3. _____



For married clients filing a joint return, compute the credit separately for each spouse, add the two credits together and enter the combined credit on Form 540A, line 27; or Form 540, line 41.

CHILD AND DEPENDENT CARE EXPENSES CREDIT FORM 3506

If your client paid someone to care for their child or other qualifying person so they could work or look for work in 2006, they may be able to take the credit for child and dependent care expenses. They must have had earned income to do so. If they can take the credit, use form FTB 3506 to figure the amount of their credit.

Your client does not have to take the federal Child and Dependent Care Expenses Credit to claim the credit for California.

Differences in California and federal law:

- * California allows this credit only for care provided in California.
- * Federal adjusted gross income must be \$100,000 or less to qualify for the California credit.
- * Never married parents, who have lived apart at all times during the last six months of the year, may be treated differently for the California credit.
- * Federal law increased the amount of earned income a disabled or full-time student spouse is treated as having earned. California did not conform.
- * The California credit is refundable.

Qualifications:

Check with your client to see if **all nine** of the following rules apply:

1. If your clients' are married, they must file a joint return. *For an exception, see the section titled "Married clients filing separate returns" on the next page.*
2. Care must be provided for one or more qualifying persons. A qualifying person is:
 - * Any child age 12 or under for whom your client is able to claim the dependent exemption credit. Children turning 13 during the year

qualify for the part of the year they were 12.

- * Your client's spouse who was physically or mentally incapable of self-care.
 - * Your client's dependent who was physically or mentally incapable of self-care. Your client must be able to claim the dependent exemption credit for this person.
3. The care was provided so your client or their spouse could work or look for work. However, if they did not find a job and have no earned income for the year, they cannot take the credit. If your clients' spouse was a student or disabled, see the instructions for line 5.
 4. Your client or their spouse must have earned income during the year.
 5. Your client or their spouse must have paid over half the cost of keeping up the home for the qualifying person(s).
 6. Your client and their qualifying person(s) must have lived in the same home.
 7. The person who provided the care was not your client's spouse, a parent of the child, or a person whom they can claim as a dependent. If their child provided the care, he/she must have been age 19 or older by the end of 2006.
 8. Your client must provide the required information about the care provider on line 1 and the information about the qualifying persons on line 2.
 9. Your clients' California adjusted gross income must be \$100,000 or less.



Non-resident rules are not covered in this manual. If your client is a non-resident or part-year resident, see the Child and Dependent Care Expense Credit instructions for Form 540NR.

General Information

Married clients filing separate

returns – If your client is married and filing a separate return, and they meet the three requirements below, plus all the other qualifications on the previous page, they may take the credit.

1. They lived apart from their spouse during the last 6 months of 2006, and
2. The qualifying person lived in their home more than half of 2006, and
3. They provided over half the cost of keeping up the home.

Divorced, separated, or never married parents:

If your client is divorced, separated, or was never married, there are special rules for determining if their child is their qualifying person. A child can only be the qualifying person of one parent when the parents are filing separate returns. Even if both parents pay for child care for the same child, both parents cannot qualify for the credit. Some custody agreements designate which parent is entitled to the credit, however, the designated parent must still meet all nine of the qualifications on the previous page.

Custodial Parent:

Your client is considered the custodial parent if they had physical custody of their child longer than the other parent during the calendar year. On days where custody is shared, the parent having custody of the child for more than 12 hours is considered to have custody for that day. If your client and the other parent have physical custody for the same number of days, then neither your client nor the other parent is the custodial parent.

For more information on divorced, separated, never married or custodial parents, see the instructions for Form FTB 3506.

PART I

Unearned Income and Other Funds Received in 2006.

List the source and amount of any money your client received in 2006 that is not included in their earned income (lines 4 & 5) but that was used to support their household. Include:

- * child support
- * property settlements
- * public assistance benefits
- * court awards
- * inheritances
- * insurance proceeds
- * pensions and annuities
- * social security payments
- * workers compensation
- * unemployment compensation
- * interest
- * dividends

PART II

Persons or Organizations Who Provided the Care

Complete column (a) through column (e) for each person or organization that provided the care. You can use federal Form W-10, Dependent Care Provider's Identification and Certification, or any other source listed in the instructions for Form W-10 to get the information from the care provider. If the provider does not give your client the information, complete as much of the information as possible and explain that the provider did not give the information requested. If the correct or complete information is not given, your clients' credit may be disallowed unless they can show they used due diligence in trying to get the required information.

Line 1 (a) and (b)

Enter the care provider's name and address. Also check if the provider is a person or an organization.

If your client was covered by their employer's dependent care plan and the employer furnished the care (either at their workplace or by hiring a care provider), enter your employer's name in column (a). Next enter "See W-2" in column (b). Then enter the employer's telephone number in column (d). Leave column (c) and column (e) blank. If your clients' employer paid a third party (not hired by the employer) on their behalf to provide the care, information about the third party must be entered in column (a) through column (e).

Line 1 (c)

Enter the telephone number of the care provider, including area code. FTB may call to verify the provider information.



TaxWise Tip:
The care provider's phone number is a "required" field on the state Form 3506.

Line 1 (d)

Check the box indicating whether the care provider is a person or organization.

Line 1 (e)

If the care provider is an individual, enter his/her social security number. Otherwise, enter the provider's employer identification number. If the provider is a tax-exempt organization, enter "Tax Exempt" in Line 1(c).

Line 1 (f)

Enter the address where the care was provided. **Only care provided in California qualifies for the credit.**

Line 1 (g)

Enter the total amount your client actually paid in 2006 to the care provider. Also include amounts their employer paid to a third party on their behalf. It doesn't matter when the expenses were incurred. Do not reduce this amount by any reimbursement they received.

PART III

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

Line 2

Information about your qualifying person(s)

Complete column (a) through column (e) for each qualifying person. If your client has more than three qualifying persons, attach a statement to the return with the required information and write "see attached." Be sure to put your clients' name and social security number on the statement.

Line 2, column (a)

Enter each qualifying person(s) name.

Line 2, column (b)

Enter the qualifying person's SSN unless he or she was born and died in 2006. Be sure the name and SSN entered agree with the person's social security card.

If the person was born and died in 2006, and did not have an SSN, enter "Deceased" in column (b) and attach a copy of the person's birth and death certificates.

Line 2, column (c)

Enter the qualifying person's date of birth. If the qualifying person is disabled, check the "Yes" box.

Line 2, column (d)

If your client shared custody of the qualifying person(s), enter the percentage of time they had physical custody.

General Information

Line 2, column (e)

Enter the qualified expenses your client incurred and paid in 2006 for the person listed in column (a). Do not include in column (e) qualified expenses your client:

- * incurred in 2006 but did not pay until 2006.
- * incurred in 2003 but did not pay until 2006. *Instead, see line 11. Credit for Prior Year's Expenses.*
- * prepaid in 2006 for care to be provided in 2006. These expenses may only be used to figure the 2006 credit.

Line 3 Add

Add the amounts in column (e) and enter on line 3. Do not enter more than \$3,000 for one qualifying person or \$6,000 for two or more qualifying persons.

Line 4 Earned Income

Earned income includes wages, salaries, tips, other employee compensation, net earnings from self-employment, strike benefits, and disability payments your client reported as wages. Earned income **does not** include pensions and annuities, social security payments, workers' compensation, interest, dividends, public assistance, capital gains, unemployment compensation, or homeowner and renter assistance.

Line 5 Spouse Who Was a Student or Disabled

Your client's spouse can be considered a student if he/she was enrolled as a full-time student at a school during any five months of 2006. A school does not include a night school or correspondence school.

Your client's spouse is considered disabled if he or she was not capable of self-care.

Figure your client's spouse's earned income on a monthly basis.

For each month or part of a month your client's spouse was a student or was disabled, he/she is considered to have worked and earned income. His/her earned income for each month is considered to be at least \$200 (\$400 if two or more qualifying persons). If your client's spouse also worked during that month, use the higher of \$200/\$400 or their actual earned income for that month.

If, in the same month, both your client and their spouse were either students or disabled, only one of them can be treated as having earned income in that month. For any month that their spouse was not a student or disabled, use your client's spouse's actual earned income if he/she worked during the month.

Line 7 Federal Adjusted Gross Income

Determine your client's federal adjusted gross income from Form 540A, line 12b, or Form 540, line 13. Then use the chart below to determine the decimal to use on line 7.

Federal AGI is OVER	But not Over	Decimal for Line 7
\$0	15,00035
15,000	17,00034
17,000	19,00033
19,000	21,000,32
21,000	23,00031
23,000	25,00030
25,000	27,00029
27,000	29,00028
29,000	31,00027
31,000	33,00026
33,000	35,00025
35,000	37,00024
37,000	39,00023
39,000	41,00022
41,000	43,00021
43,000	No Limit20

Line 9 California Credit Percentage

Use the chart below to determine the California percentage.

If the amount from Form 540A, line 12b or Form 540, line 13 is:

	Enter on line 9 Form 3506:
\$40,000 or less50
\$40,000 but not over \$70,00043
\$70,000 but not over \$100,00034
Over \$100,000 does not qualify.	

Line 11 Prior year expenses

If your clients had qualified expenses for care that was provided in 2005 that they did not pay until 2006, they may be able to increase the amount of credit they can take in 2006. Use the worksheet above to calculate the amount of additional credit your client may claim.

Line 12 Add

Add line 10 and line 11. Enter this result on Form 540A, line 31 or Form 540, line 45.

PART IV DEPENDENT CARE BENEFITS

Line 13 – Line 27

Part IV is to be completed only if your clients received dependent care benefits from their employers.

CREDIT FOR 2003 EXPENSES PAID IN 2006

You will need the instructions for the 2005 Form FTB 3506 if your client feels he/she qualifies for 2005 expenses paid in 2006.

REFUNDS AND PAYMENTS

CONTRIBUTIONS

Your clients may make contributions to any of the funds listed on the back of the forms. For a list of the funds and a description of each, see page 150. The amount of a contribution will reduce your clients' refund or, in the event of taxes owed, will increase the amount owed.

Contributions must be \$1 or more, in whole dollar amounts.

Your clients cannot change the amount of their contribution after their returns are filed.

REFUND OR NO AMOUNT DUE

If your clients made contributions, the amount of the refund is the amount of overpaid tax available this year minus the amount of the contributions.

If your clients did not make contributions, then the amount of their refund is the same as the amount of the overpaid tax available this year.

If the amount of the refund is less than \$1, a refund will not be sent unless your clients attach a written request to the form.

General Information

Have your clients send their Refund or No Tax Due return to:

FRANCHISE TAX BOARD
PO BOX 942840
SACRAMENTO CA 94240-0002

AMOUNT YOU OWE

If your clients made contributions, the amount of the payments are the amount of tax due plus the amount of contributions.

If your clients did not make contributions, enter the amount from the Tax Due line on the Amount You Owe line. This is the amount of the check or money order that should accompany your clients' return.

Your clients should make their check or money order payable to "Franchise Tax Board" for the full amount shown on the Amount You Owe line. Have your clients write their social security number, the tax year, and the form number on their check or money order.

Example:

Joan Smith would include

- * ((****)) (her social security number)
- * 2006 Form 540 2EZ (the tax year and the form number of the tax return she is filing)

Your clients should attach their check or money order to their return and mail the return to:

FRANCHISE TAX BOARD
PO BOX 942867
SACRAMENTO CA 94267-0001

DIRECT DEPOSIT

If your clients are expecting a refund, they can have it deposited directly into their bank account. They will need to provide the bank routing number, the bank account number, and the type of account in the boxes provided on the form. Refunds can be split between two different bank accounts.

It's fast, safe, and convenient for your clients to have their refund deposited directly into their bank account.

The illustration shows which bank numbers to transfer to the preprinted boxes on the tax form.

Please put the direct deposit information in the specified section of the forms. On Form 540 2EZ, enter the information in the section labeled Direct Deposit. On Form 540A, enter the information in Step 8, Direct Deposit of Refund. On Form 540, enter the information in Step 13, Direct Deposit Information.

John Doe Mary Doe 1234 Main Street Anytown, CA 999999	123 15 000000 00
PAY TO THE ORDER OF	\$ <input type="text"/>
<hr/>	
Anytown Bank Anytown, CA 999999	
Y: 234873992	y: 982937
	123

Routing Number

Account Number

Do not include the check number

CREDIT CARD PAYMENTS

Your clients can pay their taxes by credit card. A Discover/NOVUS, MasterCard, VISA or American Express card can be used to pay their personal income taxes. Your clients can pay their balance due for this year (2006), estimated taxes for 2006, extension payments, or amount owed for prior years.

There is a convenience fee for this service. This fee is paid directly to Official Payments Corp. for the use of the automated service, based on the amount of your clients' tax payment.

RATE

2.5% of tax amount charged
(round to nearest cent)
Minimum fee: \$1

Example:
Tax Payment = \$753.56
2.5% Fee = \$18.84

When will my clients' payment be posted?

Payment will be effective on the date it is charged.

What happens if my clients change their mind?

If your clients paid their tax liability by credit card and later reverse the credit card transaction, they may be subject to penalties, interest, and other fees imposed by Franchise Tax Board for non-payment or late payment of their tax liability.

How do my clients use their credit cards to pay their tax due?

Have the Discover/NOVUS, MasterCard, VISA, or American Express card and the following information ready:

- * Credit card number
- * Expiration date
- * Amount to be paid
- * Spouses' SSN
- * First 4 letters of your clients' and their spouses' last name
- * Tax year
- * Home phone number
- * ZIP code for the address where your clients' monthly credit card bill is sent
- * ((****))

Use a touch-tone telephone to call toll-free (800) 2PAY-TAX or (800) 272-9829.

Follow the recorded instructions. Official Payments Corp. will tell your client the convenience fee before they complete their transaction.

OR

Go to the Official Payments website at:
www.officialpayments.com

Can my clients direct pay FTB online?

Yes; log on to www.ftb.ca.gov and click on Make A Payment. Follow the easy directions, including how to obtain a customer service number (CSN), and enjoy the convenience of deciding which date and what dollar amount will be directly debited from your bank account.

General Information

SIGNING THE RETURN

Your clients must sign and date their return. If your clients are filing a joint return, the spouse must also sign.

If your clients are filing a joint return and their spouse died during 2006, write "Surviving Spouse" next to the clients' signature.

Be sure to enter your site number and initials in the space below "Paid Preparer's SSN/FEIN."



In signing, your clients are declaring under penalties of perjury that their return is correct and complete to the best of their knowledge.

QUALITY REVIEW CHECKLIST

Be sure the names and social security numbers are complete and in the correct order.

Be sure you entered any necessary information in Step 2.

Double-check the amount from the tax table.

Double-check the amount of California withholding on Forms W-2.

Check your math and be sure the correct amounts are entered on each line of the return.

Make sure the return is signed and dated.

Attach Label

Be sure that all the pre-printed information is correct.

Make any corrections directly on the label in ink.

Remove the address label from the front of your clients' booklet and attach it to the space provided at the top of the return in Step 1.

ASSEMBLE FORMS

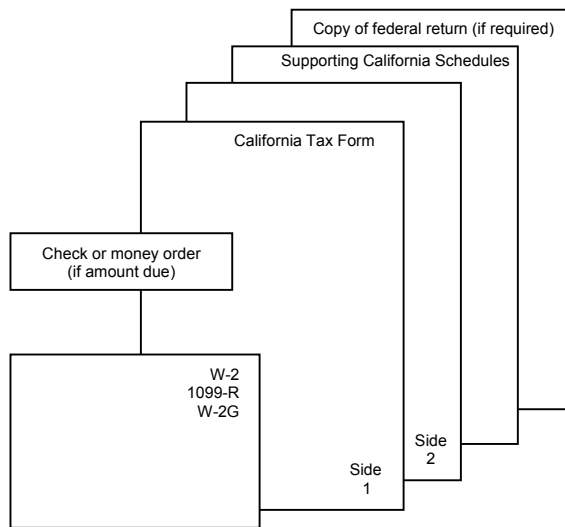
After you have completed the return:

- * Assemble the return in the following order working from the top down.
 1. Check or money order (if your clients have a balance due).
 2. Forms W-2, 1099-R or W-2G.
 3. Form 540 2EZ; Form 540A; or Form 540.
- * Form 540 2EZ and Form 540A – Do not attach a copy of the federal return.
- * Form 540 – Did you attach any federal forms or schedules other than Schedule A or Schedule B to your client's federal form?

NO: Do not attach Form 1040 to Form 540.

YES: Attach a copy of Form 1040 and all supporting federal forms and schedules to Form 540

Below is a diagram of how to assemble the forms.



GIVE RETURN TO YOUR CLIENTS FOR THEM TO FILE

Remind your clients to make a copy of the return for their records.

If there is a balance due, have your clients mail their return with their payment to the address on the label of the envelope provided in the tax booklets.

If there is a refund or no amount due, have your clients mail the return to the address shown on the label of the envelope provided.

Caution your clients to NEVER send cash.

2006 California Volunteer Manual

Form

540 2 EZ

Section

Information covered in the Form 540 2EZ Section is specific to this form

BEFORE YOU BEGIN THE 540 2EZ

The Form 540 2-EZ has less math.

The California 2EZ tax tables automatically include your clients' standard deduction, personal exemption, and dependent exemption!

Good news for taxpayers 65 or older.

If your client (or their spouse, if married) is 65 or older, you may now be able to use the Form 540 2EZ to file their taxes.

The Form 540 2EZ can be used if your clients:

1. Are claiming the following as their filing status:
 - * Single
 - * Head of household
 - * Married filing jointly
 - * Qualifying widow(er)
2. Are claiming 0 – 3 dependents.



The Child and Dependent Care Expenses credit cannot be taken on Form 540 2EZ.

3. The total amount of their 2006 wages, salaries, tips, and interest was:
 - * \$100,000 or less if single or head of household.
 - * \$200,000 or less if married filing jointly or qualifying widow(er).

4. Have income only from:
 - * wages
 - * salaries
 - * tips
 - * interest
 - * unemployment compensation
 - * pensions
 - * dividends
 - * social security
 - * tier 1 or 2 railroad retirement
 - * certain mutual fund capital gain
5. Claim the standard deduction instead of itemized deductions for California purposes.
6. Does not claim the blind exemption.
7. Claims withholding from Forms W-2 and 1099-R only.
8. Have no adjustments to their income.

The Form 540 2-EZ cannot be used if your client:

Can be claimed as a dependent by another taxpayer, and one of the following applies:

- * Their total income is less than or equal to \$10,515 for Single
- * Their total income is less than or equal to \$20,980 for Married filing jointly or qualifying widow(er)
- * Their total income is less than or equal to \$14,880 for Head of household
- * Your client has a dependent of their own.

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Form 540 2EZ

STEP 1 - NAME, ADDRESS & SOCIAL SECURITY NUMBERS

The instructions for Name, Address and Social Security Numbers are the same for all of the forms (540 2EZ, 540A, and 540). Refer to page 13, general information section, for specific instructions.

STEP 2 – FILING STATUS

Your clients' filing status for California must be the same as the filing status used on their federal return. If it is not, your clients cannot file a Form 540 2EZ. Clients who wish to file married filing separately may not use this form. For additional information about filing status, refer to page 13, general information section.

STEP 3 – EXEMPTIONS

LINE 6 CAN YOU BE CLAIMED AS A DEPENDENT?

If your clients or their spouse can be claimed as a dependent on someone else's return, fill in the circle on line 6.

For additional information about clients who can be claimed as dependents, refer to page 14, general information section.

LINE 7 SENIOR EXEMPTION

If your client (or if married, their spouse) are 65 or older, enter 1; if both, enter 2. For more information, refer to page 15 in the general information section.

LINE 8 DEPENDENTS

An exemption credit is allowed for your clients' dependents.

Enter the names of your clients' dependents. If your clients have more than 3 dependents, they cannot use Form 540 2EZ.



Your clients may be eligible for the California refundable credit for child and dependent care expenses. To claim this credit, your clients must either fill out Form 540A or Form 540.

STEP 4 – TAXABLE INCOME AND CREDITS

LINE 9 WAGES

Add up the amounts shown for state wages, tips, etc. from box 16, on each of your clients' Forms W-2 and enter the total here. Also enter your clients' taxable scholarship or fellowship grant income from Forms W-2.

LINE 10 INTEREST INCOME

Enter interest income from your clients' Forms 1099-INT, box 1.



Do not include amounts shown on Form 1099-INT, box 3, interest on U.S. Savings Bonds and Treasury obligations. This is not taxed by California. See page 17 for more information on interest income.

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Form 540 2EZ

LINE 11 DIVIDEND INCOME

Enter your clients' taxable dividend income on line 10b. If there is a federal/state difference in the taxable amount of dividend income, you cannot use Form 540 2EZ. You must use Form 540A or Form 540 for your client.

Generally, the amount of dividend income taxable by California is the same as the amount taxable under federal law. However, there may be federal/state differences in the taxable amount if your client received them from any of the following sources:

- * Exempt interest dividends from mutual funds.
- * Non-cash patronage dividends from farmers' cooperatives or mutual associations.
- * Federal exempt interest dividends from other states or their municipal obligations and/or from mutual funds.
- * Controlled foreign corporation dividends in the year distributed.
- * Regulated investment company (RIC) capital gains in the year distributed.
- * Distributions of pre-1987 earnings from an S corporation.

LINE 12 PENSION INCOME

Enter your clients' pension income. If there is a federal/state difference in the taxable amount of pension income, you must file Form 540A or Form 540 for your client.

Generally, the amount of pension income taxable by California is the same as the amount taxable under federal law. However, there may be federal/state differences in the taxable amount if your client received it from any of the following sources:

- * Tier 2 railroad retirement benefits.
- * Partially taxable distributions from a pension plan
- * Retirement annuity between 7/1/86 and 1/1/87 and elected to use the three-year rule for California purposes and annuity rules for federal purposes.

LINE 13 CAPITAL GAIN DISTRIBUTIONS

Enter the total amount of federally taxable capital gain distribution from a mutual fund (Form 1099-DIV, box 2a).

LINE 14 UNEMPLOYMENT COMPENSATION

Enter unemployment compensation from federal Form 1099G. Unemployment is not taxed by California and will not be included in the total for line 16.

LINE 15 SOCIAL SECURITY OR RAILROAD RETIREMENT

Enter the amount of social security benefits or equivalent tier 1 and tier 2 railroad retirement benefits. California does not tax this type of income and it will not be included in the total for line 16.

LINE 16 ADD

Add line 9, 10, 11, 12 and line 13. DO NOT INCLUDE LINE 14 AND LINE 15.

2006 California Volunteer Manual

Form 540 2EZ

LINE 17 TAX

Use the California 2EZ tax tables for your clients' filing status to complete this line.

The 2EZ tables in the tax booklet and in this manual include the standard deduction for your clients' filing status, the personal exemption credit, and the dependent exemption credit.

If your clients' filing status is:

- * Single - use the 2EZ tax table beginning on page 49.
- * Married filing jointly or qualifying widow(er) - use the 2EZ tax table beginning on page 57.
- * Head of Household - use the 2EZ tax table beginning on page 69.

If your clients filled in the circle on line 6, see the special instructions below

Dependent Tax Worksheet

If your clients can be claimed as a dependent on someone else's return, their exemption credit amount is zero. You will need to adjust their tax from the 2EZ tax table for this amount.

Is the amount on line 16 less than or equal to :

- * \$10,515 if single
- * \$14,880 if head of household
- * \$20,980 if married filing jointly or qualifying widow(er)

Yes Stop here. Your clients cannot use Form 540 2EZ because the correct amount of tax cannot be figured using the 540 2EZ tables.

No Figure your clients' tax as follows.

1. Use the amount from line 16, Form 540 2EZ and find the tax in the tax table for your clients' filing status.....1. _____

- * If single, or head of household, enter \$91
 - * If married and both spouses can be claimed by someone else, enter \$182
 - * If married and only one spouse can be claimed, enter \$91
 - * If qualifying widow(er), enter \$182
- }2. _____

2. Add the amount on line 2 to the amount on line 1. Enter here and on Form 540 2EZ, line 21.3. _____

2006 California Volunteer Manual

Form 540 2EZ

LINE 18 SENIOR EXEMPTION

If you entered 1 in the box on line 7, enter \$91. If you entered 2 in the box on line 7, enter \$182.

LINE 19 NONREFUNDABLE RENTER'S CREDIT

To determine if your clients qualify for the nonrefundable renter's credit, refer to page 27, general information section.

LINE 20 ADD

Add line 18 and line 19. Enter the total here.

LINE 21 SUBTRACT

Subtract line 20 from line 21. If zero or less, enter -0-.

STEP 5— OVERPAID TAX/TAX DUE/USE TAX

LINE 22 TOTAL TAX WITHHELD

Enter the total California income tax withheld from each of your clients' Forms W-2, box 17 or Form 1099-R, box 10.

For additional information about tax withheld, refer to page 26, general information section.

LINE 23 OVERPAID TAX

If line 22 is more than line 21, subtract line 21 from line 22, and enter the total here.

LINE 24 TAX DUE

If line 22 is less than line 21, subtract line 22 from line 21.

LINE 25 USE TAX

Please refer to page 24 in the general information section for information regarding use tax.

STEP 6— CONTRIBUTIONS

LINE 26 VOLUNTARY CONTRIBUTIONS

Your clients may make contributions to any of the funds listed on line 50 through line 63.

For a list of these funds and a description of each, refer to page 151.

The amount of a contribution will reduce your clients' refund or, in the event of taxes owed, will increase the amount owed. Enter the total contributions on line 26.

For additional information about contributions, refer to page 35, general information section.

2006 California Volunteer Manual

Form 540 2EZ

STEP 7 – REFUND OR AMOUNT YOU OWE

LINE 28 REFUND OR NO AMOUNT DUE

Complete the worksheet below to figure the amount of your clients' refund.

1. Amount on line 23 _____
2. Subtract amount on line 25 _____
3. Overpaid tax..... _____
4. Amount on line 26 _____
5. Subtract line 3 from line 4 _____

The amount on line 5 is your clients' refund. Transfer this amount to Form 540 2EZ, line 28. If the refund is less than \$1.00, attach a written request to receive the refund.

Direct Deposit

It's fast, it's safe, it's convenient!

Refer to page 36, general information section, for additional information on direct deposit and an illustration showing which bank numbers to use.

LINE 27 AMOUNT YOU OWE

Add line 24, line 25, and line 26 and enter the total on line 27. This is the amount your client owes.

If your clients are paying by check or money order, refer to page 36 for additional instructions.

If your clients are paying by credit card:

- * Refer to page 37 for information and instructions.
- * After completing their call to pay by credit card, assemble the return, and mail it in the envelope provided. Be sure to attach the "Amount Due" label to the front of the envelope.

ASSEMBLING THE RETURN

Once you have finished your clients' return, assemble the forms, put them in the envelope provided and attach the "Refund or No Amount Due" label to the envelope. Give the return to your clients and have them mail it.

For additional information on how to assemble the return, refer to page 39, general information section.

QUALITY REVIEW CHECKLIST

For the Quality Review Checklist and additional tasks that must be completed once you have filled out the return, refer to page 38, general information section.